

## NOTE 11 – LEASES

### Accounting Policy

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

For capital leases in governmental funds, other financing sources and expenditures are recorded at lease inception. Lease payments are recorded as debt service expenditures. (As explained in Note 3, for budgetary purposes, lease payments are only reported as expenditures when paid.)

Most leases have cancellation clauses with 1 to 6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Some lease agreements include escalation clauses or other contingent rentals.

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting

treatment is similar, such agreements are reported together with capital leases.

Leases that exist between the State and the State Building Authority (SBA, a blended component unit) are not recorded as leases in this report. In their separately issued financial statements, SBA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by SBA to construct the assets associated with the leases. Future payments to SBA are, therefore, not included in the schedules of lease commitments below. Note 12 provides information on the amount of the Authority's bonds outstanding and a schedule of debt service requirements.

### A. Primary Government – Governmental Activities

Rental expenditures incurred under operating leases totaled \$90.3 million during the fiscal year. Payments for capital lease principal, interest, and executory costs totaled \$36.2 million, \$31.5 million, and \$15.1 million, respectively.

A summary of the operating and noncancelable capital lease commitments to maturity follows (in millions).

Capital Leases					
Year Ended September 30	Operating Leases	Principal	Interest	Executory Costs	Total
2003	\$ 38.2	\$ 38.2	\$ 42.1	\$ 20.0	\$ 100.3
2004	31.7	37.0	38.8	19.7	95.5
2005	25.6	29.2	35.8	19.2	84.2
2006	17.8	25.1	33.0	18.2	76.3
2007	10.3	22.6	30.3	16.6	69.4
2008-2012	16.0	98.0	117.4	69.7	285.1
2013-2017	1.1	99.8	70.7	54.6	225.0
2018-2022	-	72.1	23.3	26.2	121.6
Thereafter	-	39.5	5.4	8.0	52.9
Total	<u>\$ 140.6</u>	<u>\$ 461.4</u>	<u>\$ 396.8</u>	<u>\$ 252.2</u>	<u>\$ 1,110.4</u>

The above capital leases relate to governmental activities which include the General Fund, special revenue funds, and the internal service funds. A liability of \$461.4 million has been recorded in the government-wide statements for the capital lease principal. The historical cost of assets acquired under capital leases and included in capital assets on the government-wide statements at September 30 follows (in millions):

Land	\$ 70.0
Buildings	449.3
Equipment	62.0
Total	581.3
Accumulated Depreciation	(149.1)
Net Land, Buildings, and Equipment	<u>\$ 432.1</u>

### B. Primary Government – Business-Type Activities

Rental expense incurred under operating leases totaled \$.2 million during the fiscal year. There were no capital lease obligations.

A summary of operating lease commitments to maturity follows (in millions):

Year Ended September 30	Operating Leases
2003	\$ .1
2004	.1
	<u>\$ .3</u>

### C. Discretely Presented Component Units

Operating lease commitments for universities and authorities totaled \$12.4 million. Total capital lease obligations were \$20.3 million, \$13.8 million, and \$0 for principal, interest, and executory costs, respectively.